

SPENDING AFFORDABILITY COMMITTEE
REPORT
FISCAL YEAR 2002



BALTIMORE COUNTY, MARYLAND

FEBRUARY 15, 2001



BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE

400 Washington Avenue
Towson, Maryland 21204
410-887-3196
410-887-5791 (Fax)

February 15, 2001

Honorable Members of the Baltimore County Council
Honorable C.A. Dutch Ruppersberger, III, County Executive

I am pleased to submit the report of the Spending Affordability Committee for Fiscal Year 2002. This is the eleventh year of reporting under the County's Spending Affordability statute, which was adopted in March 1990.

For Fiscal Year 2002, the Committee establishes a Spending Affordability Guideline of \$1,102,470,453, based on a personal income growth forecast of 5.46%. This represents a \$66.7 million increase over last year's Guideline. Of this amount, \$9.6 million represents the first year installment of a \$28.8 million adjustment to be phased in over a three-year period. This adjustment reflects the cumulative difference between the projected growth in personal income adopted by the Committee and actual growth that has occurred over the past ten years, from date of inception of the program.

Also for this year, the Committee has adopted two new Debt Affordability Guidelines, one for debt service (principal and interest payments) and one for outstanding capital debt. The Committee recommends that debt service should not exceed a Debt Affordability Guideline of \$107,370,000, or 9 percent of estimated General Fund revenues. Further, the Committee recommends that total outstanding debt should not exceed \$832,043,440, or 2 percent of the estimated full property value of County assessed real property. The Debt Affordability Guidelines apply to tax-supported debt only and exclude debt service and outstanding debt related to pension and metropolitan district bonds.

During its deliberations, the Committee was mindful of a projected slowing in the County's economy. The Committee reviewed information provided by the Regional Economic Studies Institute (RESI) at Towson University that indicated that the local, state, and national economies were still growing, but at a slower pace than had been experienced in the last few years. A majority of national economists share this assessment of the economy, although there is uncertainty about where the economy is headed. Nevertheless, a consensus opinion prevailed that the County's economy will continue to grow and that County personal income will follow.

It is important to emphasize that the Spending and Debt Affordability Guidelines are simply that, guidelines, and represent neither a ceiling nor a floor on County government operating or capital spending or debt issuances. The Guidelines may be exceeded by the County Executive and County Council; however, a rationale for exceeding the recommendations must be provided. The Guidelines are meant to control spending such that it is affordable and yet, at the same time, provides essential government services and maintains the County's infrastructure at an acceptable level of service.

In addition to establishing Spending and Debt Affordability Guidelines, the Committee reviewed the appropriateness of the County's Revenue Stabilization Reserve Account (RSRA). Currently, the RSRA is pegged at 3% of the County's General Fund Budget. Based on an analysis of similar reserves in other State and local governments, the Committee believes that the RSRA should be maintained at 5% of the County's General Fund budget. This level of reserves is consistent with the Administration's financial guideline and with the expectations of the major bond rating agencies, a significant factor in helping to maintain the County's triple-A bond rating. Further, the Committee recommends that interest accruing on account of this reserve be credited to this account, regardless of the balance in the reserve.

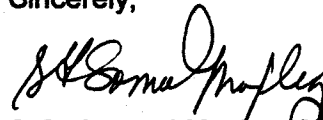
This year the Committee identified a number of issues affecting spending affordability in Baltimore County. Most of these issues were addressed by the Committee and are reflected in the recommended guidelines. During the coming year, the Committee will meet to address other issues in a continuing effort to ensure that Baltimore County remains the best place to live, work and raise a family.

I would like to thank my Council colleagues on the Committee for their energetic participation in the committee process, and their thoughtful assistance to me as Chairman. I would especially like to thank the Committee's newest member, Mr. Michael A. Funk, of Towson University, who contributed his economic expertise, and Mr. John F. Gaburick who has served on this Committee since its inception and whose long term perspective on the Committee's role remains invaluable. In addition, the Regional Economic Studies Institute at Towson University provided the Committee with its personal income forecast, as well as other valuable economic analysis and insights.

I would also like to acknowledge the support of the Auditor's Office. A very special thanks to Brian J. Rowe, CPA, County Auditor, Marc L. Nicole, Manager, Budget Analysis and Fiscal Research, Paul R. Maihan, Senior Fiscal Analyst, Elizabeth J. Farber, Fiscal Analyst, and Michelle F. Ganjon, Fiscal Analyst Assistant, for their great help and spirit of cooperation.

We hope that this report is given careful consideration in the development and review of the County's operating and capital budgets for Fiscal Year 2002.

Sincerely,



S.G. Samuel Moxley, Chairman
Spending Affordability Committee
Councilman, 1st District

SGSM:mfg

**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE**

MEMBERS

S.G. Samuel Moxley, Councilman and Chairman

T. Bryan McIntire, Councilman

Wayne M. Skinner, Councilman

Michael A. Funk
Department of Economics
Towson University

John F. Gaburick, CPA

STAFF

Brian J. Rowe, CPA
County Auditor

Marc L. Nicole
Manager of Budget Analysis and Fiscal Research

Paul R. Maihan
Senior Fiscal Analyst

Elizabeth J. Farber
Fiscal Analyst

Michelle F. Ganjon
Fiscal Analyst Assistant

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Spending Affordability Guideline	2
Debt Affordability Guidelines.....	3
General Fund Revenues & Surplus	5
Current Economic Conditions and Outlook: United States, Maryland and Baltimore County.....	6
Revenue Stabilization Reserve Fund	8
Other Issues.....	9

Attachments:

Exhibit A	Fiscal Year 2002 Guideline
Exhibit B	Debt Service to General Fund Revenues
Exhibit C	Total Debt to Real Property Value
Exhibit D	Fiscal Year 2001 - 2002 Revenues
Exhibit E	Estimated Fiscal Year 2001 Surplus
Appendix A	Calculation of Spending Affordability Guideline
Appendix B	Spending Not Subject to Personal Income Growth

BALTIMORE COUNTY, MARYLAND

SPENDING AFFORDABILITY COMMITTEE

Report for Fiscal Year 2002

Introduction

In March 1990, the Baltimore County Council enacted legislation (Bill 33-90) which established a spending affordability law (Code sections 15-281 to 15-287) for Baltimore County. To ensure that growth in County spending does not outpace the rate of growth of the County's economy, the law mandates that the Spending Affordability Committee make a recommendation each fiscal year on a level of County General Fund spending that would be consistent with the economic growth of the County.

By law, the Spending Affordability Committee must submit a report to the County Council and County Executive by February 15 of each year. This reporting date allows the Executive ample time to consider the Committee's recommendations before formal presentation of the proposed budget to the Council on or before April 16 of each year. The purpose of this report is to provide formal input, from the County Council to the County Executive, related to the formulation of the County budget. Such reporting is thereby a significant component of the governmental system of checks and balances, helping to ensure that the operation of County government remains affordable for County citizens. The guideline is intended to set a recommended maximum County spending level that should not be exceeded in a particular fiscal year; however, the guideline may be exceeded at the discretion of the County Executive or County Council if a rationale is provided for doing so. To date, the County Executive has not proposed and the County Council has not adopted a budget that has exceeded the Committee's recommended guideline. Our hope is that the Fiscal Year 2002 operating budget is again within the Committee's recommended guideline.

For Fiscal Year 2002, the Committee has revised its debt affordability guidelines. The purpose of these debt guidelines is similar to the guideline adopted for the operating budget - to ensure that the capital budget remains affordable to the citizens of Baltimore County. These guidelines are intended to ensure that the projected issuance of new tax-supported debt does not raise total outstanding debt or debt service above the levels specified in the report. We hope that these guidelines will help control debt issuances while at the same time allowing sufficient resources to maintain the County's infrastructure at an acceptable level of service for our citizens.

Spending Affordability Guideline

The Spending Affordability Guideline for a given fiscal year is calculated by applying a personal income growth factor to the previous year's estimated "base" spending level, as defined by the Committee. The personal income growth factor adopted by the Committee is based on the average of six separate personal income forecasts for the State of Maryland (averaged over the two calendar years spanning the fiscal year).

Individual State personal income forecasts are then adjusted by the expected personal income growth differential, projected by RESI, between Baltimore County and the State. (RESI is the only forecaster that provides an independent Baltimore County personal income forecast.)

During this year, the Committee slightly modified its calculation of the Spending Affordability Guideline. This modification came about as a result of a comprehensive comparison of the growth factors adopted by the Committee and actual personal income growth over the last ten years. This comparison showed that the growth factors adopted by the Committee have, on average, understated actual personal income growth in the County by 2.78%, or approximately \$28.8 million. In an effort to close this gap, the FY 2001 baseline spending was adjusted upward by approximately \$9.6 million. This adjustment reflects the first-year installment of the full \$28.8 million adjustment, which is to be phased in over a three-year period. Phasing in this adjustment over a three-year period provides a smoothing effect to the guideline and allows for any corrections or revisions to the personal income growth rates that are likely to occur during this period.

The personal income growth factor adopted by the Committee for FY 2001 is 5.46% and the base year spending level is \$1,045,392,047 after adjusting for the personal income growth differential. Applying the adopted personal income growth factor to the adjusted base year spending level results in a Spending Affordability Guideline of \$1,102,470,453. This guideline represents a \$66.7 million increase over the previous year. **Accordingly, the Committee recommends that the FY 2002 operating budget (as defined by the Committee) not exceed \$1,102,470,453 (Exhibit A).**

Debt Affordability Guidelines

This year, the Committee modified its policies and procedures for determining debt affordability, both debt service and total outstanding debt. In previous years, three general guidelines were published, one covering debt service and two separate guidelines for total outstanding debt. One guideline measured total outstanding debt against full property value, while the other measured it against personal income.

The Committee recognized that having two separate guidelines addressing total outstanding debt could have provided conflicting guidance to the Administration and was contrary to “best practices” standards advocated by the Government Finance Officers Association. Therefore, the Committee adopted a single guideline for total outstanding debt. The Committee believes that assessed real property value is the more appropriate guideline against which outstanding debt should be measured. Assessed real property value was selected over personal income as the more appropriate measure because property value has a clearer relationship to bond proceeds than personal income. Both bonds and property represent a real asset or the development of one. Further, real property value is a more stable base upon which to set a guideline than personal income, which can be volatile and subject to significant revision.

The Committee reviewed and discussed updated information on the County’s total debt and debt service trends over time for the purpose of establishing appropriate debt affordability guidelines. The Committee also reviewed debt guidelines adopted by other Maryland jurisdictions and other state and local governments. The Committee believes that its review of debt affordability and the setting of specific guidelines provides an enhanced system of checks and balances, further displaying the County’s fiscal responsibility to its citizens, bond rating agencies and others in the financial community.

The ratio of debt service to total General Fund revenues is a key debt affordability indicator. The basic benchmark set by credit analysts is that a ratio over 10 percent suggests that the debt burden is too heavy. The Administration’s financial guidelines set a target range of between 8 and 9 percent; the County’s actual Fiscal Year 2000 ratio is 5.6 percent. **The Committee recommends that debt service not exceed 9 percent of Fiscal Year 2002 estimated General Fund revenues, or \$107,370,000 (Exhibit B).**

The ratio of debt to property value is an indicator of the burden that debt places on the property tax base. The County Charter provides that total County outstanding debt shall not exceed 10% of the County’s assessable base. The Administration’s financial guidelines set a debt to full value ratio of between 1.4 to 2.0%;

the actual Fiscal Year 2000 full value ratio is 0.9%. The Committee concluded that this guideline should only apply to real property and not personal property because personal property is not capital in nature. Personal Property comprises about 6 percent of all assessable property in Baltimore County. **The Committee recommends that total outstanding debt not exceed 2 percent of Fiscal Year 2002 estimated assessed real property value, or \$832,043,440 (Exhibit C).**

General Fund Revenues & Surplus

Revenues for Fiscal Year 2001 and 2002 are projected to reach \$1.177 and \$1.193 billion, respectively (See Exhibit D). The estimate of revenue growth for Fiscal Year 2002 of 1.4% is much less than that of the previous two fiscal years (3.7% each year). However, this rate of growth is consistent with a slowing of economic growth. Property tax revenues for FY 2002 are expected to increase by 3.2% over FY 2001, just slightly below the average for the last three years of 3.7%. Income Tax receipts for FY 2001 are expected to decline by \$1 million from FY 2001 levels mainly as the result of a decline in income tax receipts from capital gains. However, income tax receipts from payroll withholding, which represent about 85% of income tax revenues, are expected to grow by 4.1% in FY 2002. Revenues from the County's remaining sources, which comprise slightly less than 20 percent of the total, are not expected to change from FY 2001 levels, in aggregate. The Fiscal Year 2002 revenue forecast of \$1.193 billion is \$90.5 million above the spending guideline.

The FY 2002 revenue estimate noted above does not include the \$90.2 million General Fund balance expected to be available at the start of FY 2002 (See Exhibit E). The \$90.2 million estimate includes \$36.6 million expected to be designated for the Revenue Stabilization Reserve Account (RSRA) at the end of FY 2001. The Committee recognizes that the total fund balance is an important indicator for sound fiscal policy and helps to maintain the County's triple-A bond rating. The County's current financial guidelines set a target fund balance equal to 5% of General Fund revenues (including the RSRA, which is mandated to equal least 3% of budget). This 5% target would total \$58.9 million, based on the estimated Fiscal Year 2001 General Fund revenues, leaving a little over \$31.3 million above the County's 5% target reserve. **The Committee recommends that these surplus funds should be eliminated through tax rate reductions or used for one-time expenditures such as contributions to the capital budget or repayment of debt. They should not be used for ongoing expenses.**

Current Economic Conditions and Outlook: United States, Maryland & Baltimore County

The Committee reviewed current and projected economic conditions affecting the county, state, and nation to make sure that the Committee's growth factor is consistent with these conditions. At present, the U.S. is enjoying its longest economic expansion in history at 118 months. However, there is currently considerable disagreement among professional economists on where the economy is headed. According to a January 2001 Blue Chip Economic Indicator's survey of fifty economists, the overwhelming majority say that a recession will be avoided; however, expectations have been lowered sharply in the last two months. In November 2000, the fifty panelists had a consensus Gross Domestic Product (GDP) growth forecast of 3.4% for 2001, but by January 2001 this forecast was lowered to 2.6%, the weakest performance since 1991 when the economy declined by 0.5%. This 0.8% percentage point drop in growth expectations over the last two months is the sharpest downward revision since the summer of 1990, just when the economy began to slip into recession.

Strong economic growth over the last few years has sent the national unemployment rate to levels not seen in decades. For 2000 as a whole, the national unemployment rate averaged 4.0%, but in October 2000, the unemployment rate stood at 3.9 percent, a 30-year low. The State and Baltimore County both recently recorded record low unemployment rates of 2.9% and 3.0%, respectively. With the slowing, or as some say stalling economy, the national unemployment rate is expected to inch-up and average 4.3% in 2001 and 4.7% in 2002. The State and County unemployment rates will also likely increase, but perhaps by less than the national average since the defense and health care sectors (two important sectors to the Maryland economy) are expected to remain strong over the next several years.

Based on the rate of change in personal income, Maryland's recent economic performance parallels the U.S., with perhaps a bit weaker growth in 1998 and 2000 and a bit stronger growth in 1999. Projections for personal income growth in 2001 and 2002 suggest that growth, on average, will be slightly stronger in Maryland versus the U. S., although the differential will be narrow, and the rate of growth, both nationally and in the State, will be lower than in recent years.

Over the 1990 to 1998 period, the annual rate of growth in personal income in Maryland exceeded Baltimore County's personal income growth rate by an average of 0.3 percentage points. This personal income growth differential between the State and County is estimated to have widened considerably in FY 1999 (probably due to a statistical abnormality rather than fact) and then to have narrowed to a more normal differential in FY 2000. For FY 2001 and 2002, RESI is forecasting that the personal income growth differential

between the State and Baltimore County will be about 0.25 percentage points. It is this personal income differential between the State and County that the Committee uses to adjust the consensus State forecast and set a growth factor for the County.

Revenue Stabilization Reserve Account (RSRA)

In 1992, the County Council enacted legislation establishing the RSRA to ensure that the County had cash reserves available to offset a deficit occurring in the General Fund. The legislation established a fund balance of 3 percent of the General Fund budget. However, the County Administration has a financial guideline that sets as a goal a fund balance of 5 percent of General Fund revenues (including the RSRA).

The Spending Affordability Committee is concerned about the sufficiency of a statutorily mandated 3 percent reserve should the County experience an economic downturn. The Committee's concern partially stems from the County's experience with no reserve in the early 1990's. For example, during FY 1992 the County's revenues were 5.1% less than budgeted and the County was required to make significant budgetary adjustments, including layoffs. The Committee also notes that a majority of states with reserve funds have a requirement for at least a 5 percent reserve and that the bond rating agencies look favorably on a reserve of 5 percent. Although the Administration has established a target reserve of at least 5 percent, there is no requirement that this reserve be restricted for the purpose of offsetting a General Fund deficit. **Therefore, the Committee recommends that the Revenue Stabilization Reserve Account be maintained at a level equal to 5 percent of the General Fund budget. Further, the Committee recommends that interest attributable to the fund be allowed to accrue to the reserve and not to the General Fund.**

Other Issues

As the Committee continues to review an increasingly broad range of issues, it recognizes the importance of continued meetings after issuance of the annual report. The Committee will, therefore, continue to meet during 2001 to discuss such topics as refining revenue and budget projections for use in setting the guideline; examining the relationship between personal income growth and County revenue and budget growth; analyzing other relevant indicators of County economic growth and spending affordability; reviewing the expenditure of funds from off-budget reserves (i.e., health insurance); and examining the wide range of capital budget and debt affordability issues.

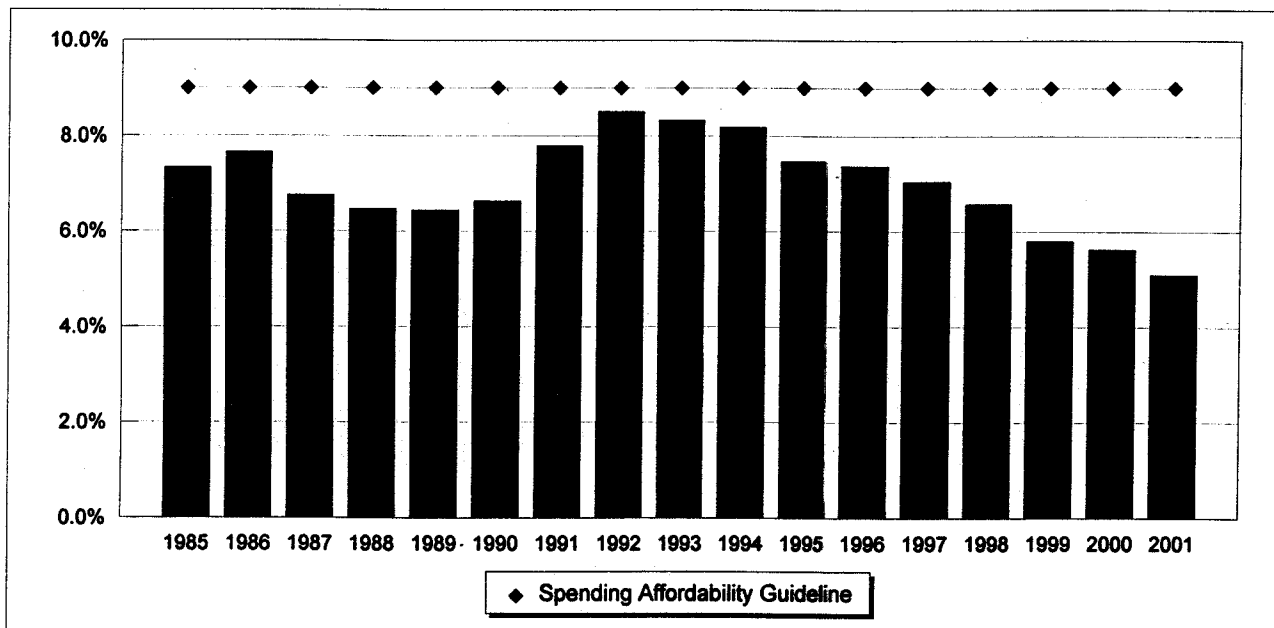
**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE (SAC)
FISCAL YEAR 2002 GUIDELINE**

	<u>FY 2001 Budget</u>
General Fund Operating Budget Appropriations	\$1,207,288,128
Supplemental Appropriations	<u>13,281,872</u>
Sub-Total	<u>1,220,570,000 (A)</u>
SAC Adjustments:	
Selected Non-County Funds	
State and Federal Grants in Aid (excluding tax reimbursement)	(26,323,643)
Local Share - State & Federal Grants	(3,937,318)
Education - Federal/Restricted Program	(1,024,729)
Capital-Related Items	
PAYGO	(110,280,000)
Reserve Funds	
Economic Stabilization Reserve Fund	0
Contingency Reserve	(1,000,000)
Local Grants	
Arts & Science Grants	(4,509,772)
Other Adjustments	
One-time revenues, costs or savings ¹	<u>(37,691,282)</u>
Total Adjustments	<u>(184,766,744) (B)</u>
FY 2001 SAC Spending, Base Year (A - B)	\$1,035,803,256 (C)
Growth Factor to Personal Income Adjustment	<u>9,588,791 (D)</u>
FY 2001 Adjusted SAC Spending, Base Year (C + D)	\$1,045,392,047 (E)
Growth Factor	x <u>1.0546 (F)</u>
FY 2002 SAC Spending Guideline (E x F)	<u>\$1,102,470,453 (G)</u>
Adjusted Growth over FY 2001 SAC Spending Base (G - C)	\$66,667,197

¹ Non-recurring

FY 2001 - \$24,808,135 Board of Education, \$12,883,147 Health Insurance Reserve

**BALTIMORE COUNTY, MARYLAND
DEBT SERVICE TO GENERAL FUND REVENUES**



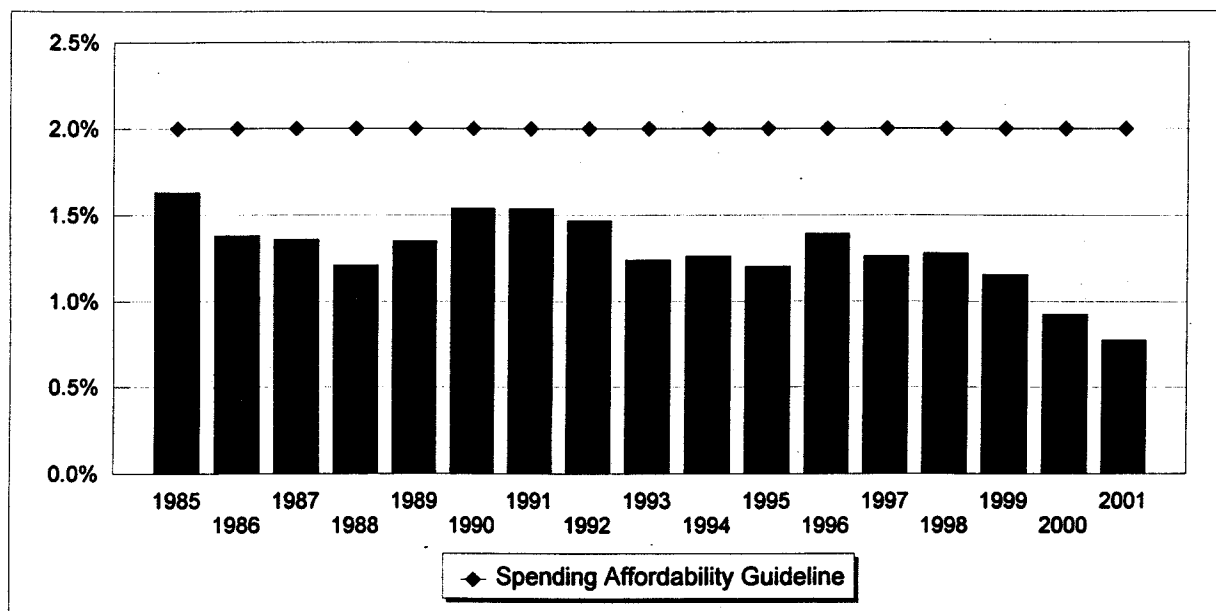
Fiscal Year	General Fund Revenues	Debt Service *	Debt Service/ Revenues
1985	\$570,915,904	\$41,881,021	7.3%
1986	590,361,657	45,212,131	7.7%
1987	633,587,471	42,782,690	6.8%
1988	688,248,138	44,511,364	6.5%
1989	733,403,105	47,229,889	6.4%
1990	792,369,875	52,580,384	6.6%
1991	820,557,654	63,953,476	7.8%
1992	801,995,002	68,239,158	8.5%
1993	844,559,646	70,338,690	8.3%
1994	864,330,812	70,757,472	8.2%
1995	891,915,401	66,654,807	7.5%
1996	919,128,524	67,681,120	7.4%
1997	963,223,099	67,876,726	7.0%
1998	1,031,218,688	67,821,340	6.6%
1999	1,094,359,672	63,462,996	5.8%
2000	1,135,642,741	63,903,842	5.6%
2001	1,165,493,018	59,453,057	5.1%
2002	Guideline	107,370,000	9.0%

* Excludes debt service related to pension funding and metropolitan district bonds.

Note: FY 2001 revenues and debt service are estimated. All prior years are actuals.
FY 2002 guideline based on estimated revenues of \$1,193,000,000.

Sources: Baltimore County Annual Budget Documents,

BALTIMORE COUNTY, MARYLAND TOTAL DEBT TO REAL PROPERTY VALUE



Fiscal Year	Debt to Full Value Ratios			Debt Outstanding*
	G.O. Bonds	Other Borrowings	Total Debt Ratio	
1985	1.6%	0.0%	1.6%	\$257,184,571
1986	1.4%	0.0%	1.4%	235,404,476
1987	1.3%	0.0%	1.4%	253,828,121
1988	1.1%	0.1%	1.2%	248,787,015
1989	1.2%	0.1%	1.4%	305,497,700
1990	1.3%	0.2%	1.5%	384,877,462
1991	1.3%	0.2%	1.5%	426,612,740
1992	1.3%	0.2%	1.5%	448,448,227
1993	1.1%	0.1%	1.2%	409,590,628
1994	1.1%	0.1%	1.3%	430,939,815
1995	1.1%	0.1%	1.2%	420,140,000
1996	1.3%	0.1%	1.4%	494,164,000
1997	1.1%	0.1%	1.3%	458,887,000
1998	1.2%	0.1%	1.3%	477,029,000
1999	1.1%	0.1%	1.2%	442,316,000
2000	0.9%	0.1%	0.9%	364,803,000
2001	0.7%	0.1%	0.8%	311,879,321
2002	Guideline		2.0%	832,043,440

* Excludes debt related to pension funding and metropolitan district bonds.

Note: FY 2001 debt is estimated. All prior years are actuals.

FY 2002 guideline based on estimated real property value of \$41,602,172,000.

Personal property valued at \$2.61 billion is excluded from this analysis.

Source: Baltimore County Comprehensive Annual Financial Reports

BALTIMORE COUNTY, MARYLAND
FISCAL YEAR 2001 - 2002 REVENUE FORECAST
(Millions of \$)

	<u>FY 2000 ACTUAL</u>	<u>FY 2001 REVISED</u>	<u>FY 2002 ESTIMATE</u>	<u>PERCENT CHANGE FY 00 - 01</u>	<u>FY 01 - 02</u>
PROPERTY TAXES	\$512.0	\$531.0	\$548.0	3.7%	3.2%
INCOME TAXES	403.7	430.0	429.0	6.5	(0.2)
RECORDATION & TITLE TRANSFER TAXES	53.4	49.0	49.0	(8.2)	0.0
OTHER SALES & SERVICE TAXES	45.4	45.7	46.5	0.7	1.8
FEES & PERMITS	3.9	4.0	4.0	2.6	0.0
FINES, FORFEITURES & PENALTIES	6.0	8.0	8.0	33.3	0.0
INTEREST ON INVESTMENTS	15.6	13.5	12.0	(13.5)	(11.1)
STATE SHARED REVENUE	35.9	37.0	36.5	3.1	(1.4)
STATE GRANTS	30.2	31.9	32.8	5.6	2.8
FEDERAL GRANTS	2.8	2.7	2.7	(3.6)	0.0
INTERGOVERNMENTAL AID	<u>\$68.9</u>	<u>\$71.6</u>	<u>\$72.0</u>	<u>3.9</u>	<u>0.6</u>
SERVICE CHARGES	6.7	6.5	6.5	(3.0)	0.0
OTHER	<u>19.1</u>	<u>17.8</u>	<u>18.0</u>	<u>(6.8)</u>	<u>1.1</u>
	\$1,134.7	\$1,177.1	\$1,193.0		
Growth over Prior Year	3.7%	3.7%	1.4%		

NOTE: Revenue from interest on investments could be reduced by \$2 million in FY 02 if earnings from the Revenue Stabilization Reserve Account are credited to that account rather than the General Fund.

BALTIMORE COUNTY, MARYLAND
ESTIMATED FISCAL YEAR 2001 SURPLUS
(\$ in Millions)

FY 2000 General Fund Surplus (per CAFR)		\$133.631
FY 2001 Revenue Estimate (per Adopted Budget)	1,165.493	
FY 2001 Revision (per Spending Affordability Comm.)	<u>11.607</u>	
FY 2001 Revised Revenue Estimate (per SAC)		1,177.100
FY 2001 General Fund Appropriations (per Adopted Budget)	1,207.288	
FY 2001 Supplemental Appropriations	<u>13.282</u>	
FY 2001 Revised General Fund Budget		<u>1,220.570</u>
FY 2001 Estimated Surplus (per SAC)*		\$90.161
County Fund Balance Guideline (5% of General Fund Revenues)*		58.855
Balance above the Guideline		31.306

* Includes \$36.617 million in Revenue Stabilization Reserve Account

APPENDIX A
Spending Affordability Guideline

The Spending Affordability Guideline for a given fiscal year is calculated by applying a personal income growth factor to the previous year's estimated "base" spending level, as defined by the Committee. Specifically, the recommended level of spending is calculated as follows:

General Fund Operating Budget Appropriations (previous fiscal year)
+ Supplementary appropriations
- Spending Adjustments (selected non-County funds, general fund contributions to the
 capital budget (i.e., PAYGO), reserve funds, local grants and other
 adjustments itemized in Appendix B)
= "Base" Spending (previous fiscal year).

"Base" Spending (previous fiscal year).
+ Growth Factor to Personal Income Adjustment¹
= Adjusted "Base" Spending (previous fiscal year).

Adjusted "Base" Spending (previous fiscal year)
x Growth Factor (projected personal income growth for the next fiscal year)
= Spending Affordability Committee Spending Guideline (new fiscal year).

¹ This is a new adjustment for FY 2002 and is being phased in over a three-year period. This adjustment reflects the cumulative difference between the projected growth in personal income adopted by the Committee and actual growth that has occurred over the past ten years.

APPENDIX B

Spending Not Subject to Personal Income Growth

Appropriations supported or determined by non-County funds:

- State and federal grants budgeted in the General Fund: these funds support State and/or Federal programs/activities that are not directly supported by County taxpayers and therefore are not dependent upon or controlled by the growth in County personal income.
- Local Share - State and Federal Grants: the total required County General Fund match for all anticipated grants is based on the level (and match provisions) of grant funding. Acceptance of State and Federal grants is discretionary.
- Education - Federal/Restricted Programs: the required County General Fund match for such funds in the Department of Education is similarly based on the level (and match provisions) of grant funding.

Capital budget-related appropriations:

- Pay-As-You-Go (PAYGO): the General Fund contribution to the capital budget, if any, is determined annually based on funds that are available and not otherwise committed to supporting County services. Thus, such expenditures may be viewed as one-time outlays.

Reserve funds and contingencies:

- Revenue Stabilization Reserve Account (RSRA): appropriations or transfers to the RSRA do not represent expenditures but rather a reserve of funds available in case of an emergency. These funds are required to equal at least 3% of the General Fund budget.

- Contingency Reserves: these funds are appropriated for unanticipated needs (e.g., emergencies) and are not earmarked for a specific purpose or program. As such, this appropriation does not represent an expenditure but rather a reserve for contingencies. If these funds are spent, the nature of the expenditure would be examined to determine its effect on baseline spending (e.g., one-time or ongoing).

Local grants:

- Grants awarded by the Commission on Arts and Sciences (budgeted as “Organizational Contributions”) are purely discretionary and may be viewed as one-time-only. As such, funding is subject to the availability of revenues and/or surplus and need not be limited to growth in personal income.

Other Adjustments:

- Specific exclusions for one-time, nonrecurring costs or revenues such as spending by the Board of Education for items excluded from the State Maintenance of Effort requirement or funds used to replenish the County’s health insurance reserve.
- Other expenditures or revenues, to be determined on a year-to-year, case-by-case, basis.